



# INFORMATION SHEET

Serving the People of California

## PERSONAL INCOME TAX WITHHOLDING — SUPPLEMENTAL WAGE PAYMENTS, MOVING EXPENSE REIMBURSEMENT

### Supplemental Wage Payment

When supplemental wages (bonuses, commissions, overtime pay, sales awards, back pay including retroactive wage increases, reimbursement for nondeductible moving expenses, etc.) are paid at the same time as regular wages, the personal income tax to be withheld shall be computed on the total of the supplemental and regular wages and shall be determined as if the total of the supplemental wage and the regular wages constituted a single wage payment for the regular payroll period.

If supplemental wages are paid subsequent to the payment of regular wages, the method of withholding income tax depends in part on whether the employer has withheld personal income tax from the employee's regular wages.

If income tax was withheld from the employee's regular wages, you may choose either one of two methods for withholding income tax on the supplemental wages:

- Compute the tax on combined regular and supplemental wages. The computed tax minus the tax withheld from regular wages is the tax to be withheld from supplemental wages, or
- Withhold at a flat rate of 6 percent without allowing for any withholding exemptions claimed on the employee's withholding allowance certificate.

If the employer has **not withheld** personal income tax from the regular wages (e.g., where an employee's withholding exemption exceeds his/her wages), the regular and supplemental wages must be added together and the tax computed on the total amount.

If vacation pay is paid in addition to regular wages for the vacation period, such vacation pay is to be treated as a supplemental wage payment.

### Moving Expense Reimbursement

A moving expense reimbursement in connection with a move out of California is considered compensation for future services. The reimbursement would not be included as California income based on the fact that the individual is no longer considered a resident of California. The reimbursement is not subject to personal income tax withholding.

If an employee receives reimbursement in connection with a move to California, the reimbursement is considered a bonus for future services to a resident and must be included as California income.

Reimbursement to employees for moving expenses to California, or for moving expenses within California, are not subject to withholding to the extent that the expenses are deductible from gross income. Deductions are allowed for reasonable costs incurred for:

- Moving household goods and personal effects from the former residence to the new residence,
- Traveling (including meals and lodging) from the former residence to the new place of residence,
- Traveling (including meals and lodging) after obtaining employment, from the former residence to the general location of the new principal place of work and return, for the principal purpose of searching for a new residence,
- Lodging and meals while occupying temporary quarters in the general location of the new principal place of work during any period of 30 consecutive days after obtaining employment, or
- Selling or settling lease on former home and purchasing or leasing a new one.

In order for these expenses to be deductible, the employee's new principal place of work must be at least 35 miles farther from his or her former residence than was his or her former principal place of work. Deductions for travel expenses to look for a new residence and meals and lodging while occupying temporary quarters near the new place of work are limited to \$1500. Deductions for the expenses of selling, buying, or leasing a home are limited to \$3000.

*The employer should be aware that if the Revenue and Taxation Code is amended to conform to the changes in the federal law, only the following deductions will be allowed:*

- *Reasonable expenses (unlimited amount but must be substantiated) of moving household goods and personal effects from the former residence to the new residence.*

- *Reasonable traveling expenses (including lodging but not meals) from the former residence to the new place of residence.*

Commuting distance between the employee's former residence and new work location must **increase** by at least **50 miles** instead of 35 miles.

The portion of the reimbursement that is not allowed as a deduction is subject to California personal income tax withholding.

Equal Opportunity Employer/Program. Auxiliary services available to individuals with disabilities. TDD Users, contact the California Relay Service: 1-800-735-2929.